

### DRAFT RENT CONTROL PROPOSAL

Rent control was instituted in Newark in 1973, because "an emergency exists within the city of Newark...by reason of the demands for increases in rent which are hereby determined to be exorbitant, speculative and unwarranted." The New Jersey Supreme Court has stated that, "Rent Control begins with the premise that rents are being unfairly inflated as a result of failure in the free operation of the rental housing market, e.g. housing shortages, monopoly power, etc." The Court has also ruled that rent control laws are constitutional if a housing shortage exists (i.e. a vacancy rate of 3% or less) or if there are widespread rent increases being put into effect.

Although Newark has more tenants (87,554 families) than any other city in New Jersey, its rent control law is weaker than those in many other cities. While Newark now allows landlords to automatically raise rents by 6% per year. (it was 5% until 1980) many other cities limit automatic rent increases to 3%, 4% or 5%. In addition, Newark has more pro-landlord loopholes in the law than any other city in New Jersey. A landlord can get an additional rent increase to pay his taxes, heating bills, water bills, to fix his/her building or to pay for other increases in costs. Finally, the rent control law does not effect one of the biggest economic advantages - tax benefits (including accelerated depreciation, investment tax credits etc.) Superior Court Judge Martin recently ruled that these and other economic benefits for the landlord should be taken into account in determining what a fair profit is.

The Rent Control Board has not been very vigorous in enforcing the law's provisions on landlord registration, so, when a new tenant moves into a building, the landlord can cheat and raise the rent, even though the law prohibits this.

The net result is that the current rent control law does a very good job

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of increasing or maintaining a landlord's profits and a poor job of protecting tenants. The median rent in Newark rose 106% between 1970-80, ven though rent control has been in effect since 1973. The New Jersey Supreme Court has ruled (in both Helmsley and Brunetti cases) that rent control laws can be much stronger in protecting tenants than the current Newark Law.

## PROPOSED CHANGES IN NEWARK RENT CONTROL LAW

Tenants in Newark are proposing the following improvements in the Newark Rent Control Law.

### 1.) LOWER THE AUTOMATIC INCREASE TO 3.5% PER YEAR.

This was recently ruled to be fair by Superior Court Judge Ralph Martin. Automatic increases of 6%, which are currently allowed in Newark today, are unfair. Landlords are able to raise their profits, year by year, and tenants cannot afford it. In 1980, the median family income in Newark was only \$10,118. Tenants' incomes are eaten away by inflation; thousands in Newark cannot find work. Landlords, on the other hand, are making more money and paying less taxes due to the "pro-rich" tax breaks based on Reaganomics.

### 2.) SET A CEILING OF 15% ON HARDSHIP AND CAPITAL IMPROVEMENT INCREASES.

This has already been found to be workable in Orange and most other cities in New Jersey. The Rent Control Board must be prevented from causing unbearable hardships for tenants while they protect a landlord's profits. Recent decisions by the Newark Rent Control Board have resulted in 100% increases in rents for tenants. Some of these increases have occurred in apartments that the tenants had to heat themselves. Landlords cannot be the only group in society to be fully protected from the impact of inflation.

### 3.) ELIMINATE THE UTILITY PASS THROUGH COMPLETELY.

Landlords are already protected by the hardship provision of the law and automatic yearly increases. The Utility Pass Through is a loophole that must be closed. Tenants are forced to pay for increases in fuel and other costs twice.

4.) RENT FREEZE FOR THREE YEARS IN ANY BUILDING NOT REGISTERED WITH THE RENT CONTROL BOARD. This will give the landlords an incentive to abide by the law. When landlords don't register, they can unfairly raise the rents whenever a new tenant moves into an apartment, because the new tenant cannot know what the legal rent is supposed to be. Recent research indicates that 60%

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of the owners of large multi-family buildings are not registered with the Rent Control Board.

5.) LIMIT TAX SURCHARGE TO 50% OF THE ACTUAL TAX INCREASE.

When taxes go down, tenants only get 50% of the decrease as a rebate. The same proportion should be paid by the tenants when the taxes go up.

6.) NO HARDSHIP RENT INCREASES FOR BUILDINGS IN VIOLATION OF THE HOUSING CODES. Landlords who create unsafe or unhealthy living conditions should not be rewarded with extra rent increases.

7.) PROTECTION FROM UNJUST EVICTIONS DUE TO LANDLORDS' DECISIONS. Landlords, including the City of Newark, sometimes find it advantageous to demolish buildings or board up buildings that are in structurally sound condition. This must stop. Landlords must be prevented from evicting tenants in order to convert the building to another use.

8.) RELOCATION EXPENSES FOR TENANTS WHO ARE FORCED TO MOVE DUE TO DEMOLITION OR RECONSTRUCTION.

9.) DOCUMENTATION AND VERIFICATION OF ALL EXPENSES LANDLORDS SUBMIT WHEN SEEKING HARDSHIP RENT INCREASE.

10.) ENFORCEMENT OF TAX REBATE SYSTEM. Today, landlords are breaking the law and it's costing tenants money.

11.) STIFF PENALTIES FOR LANDLORDS WHO BREAK THE LAW. Today, there is no incentive for landlords to obey the law, and they can make more money by breaking the law.



### THE LANDLORDS' ARGUMENTS

The New Jersey Supreme Court has ruled that rent control laws are constitutionally valid, and other courts have not fallen for the landlords' claims of their economic ruin. Landlords have therefore resorted to a number of manipulative arguments in their attempts to ruin rent control. These have been based on falsehood, fake data and a general "cry baby" approach to justify their quest for fat profits, while the public be damned. They have put forward a number of "reforms" in their drive to gut rent control.

Landlords claim that:

A.) Rent control has caused housing abandonment by landlords. They claim that under rent control they're losing money and so, they abandon their property. This is simply not true. Newsweek (oct. 10, 1977) reported that a recent study found that "no significant relationship exists between abandonment and rent control." Another study, done for the U.S. Department of Housing and Urban Development by John Gilderbloom concludes that "rent control had no net effect on demolition of housing units."

In reality, landlords are making a lot of money from rents, the tax benefits of owning real estate, and from buying and selling buildings. Newark's rent control law allows any landlord who is not making a profit to apply for a hardship rent increase in addition to the automatic increase granted every year by the law. But the landlords do not apply for it! Less than 1% of Newark's landlords, in any given year, have been able to prove that they were not making money. The other 99% are clearly making money. The landlords have therefore pressured the Newark City Council to create loopholes in the law so they could get higher rent increases without having to prove that their claims about economic losses were true.

Housing abandonment has been shown to be higher in many cities without rent control - for example, Chicago, Cleveland and St. Louis. Many researchers have concluded that government and corporate policies like: redlining, "urban

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renewal", land banking, etc. Others have shown its relationship to arson-for-profit and the land grabs of both government and private corporations (often for parking lots.) Lastly, it has been demonstrated that current tax and other laws encourage "milking" buildings for all they are worth. Extra profits can be made by collecting rents and not maintaining the buildings, or not providing heat and other services and then defaulting on mortgage, tax and water bills and collecting on insurance payments from fires set in the buildings. (Often, when the building is finally taken by the city for the non-payment of taxes, another in the group of slumlords buys the building and starts the process all over again.)

The goal of the highest profits possible now takes precedence over responsibility, the preservation of housing and even the value of a human being's life.

B.) Rent control prevents the construction of new apartment buildings. This is also not true. A Landlord can legally set the rent on a new apartment as high as he/she wants. Sky-high interest rates and increases in construction costs have made rents on new buildings largely unaffordable to low and moderate income tenants. Thus, most new housing construction occurs in areas where higher income people live and can afford the high rents. A HUD study on rent control in New Jersey showed that "the decline in construction was even greater in non-rent controlled cities than in controlled cities.

C.) Rent Control prevents the rehabilitation of sound older apartment buildings. The Newark Rent Control Law already allows the landlord to legally set any rent he/she wants on a building that is substantially rehabilitated. In addition, smaller capital improvements are paid for by the tenants under the current law. According to a recently published textbook, Real Estate: Principles and Practices a landlord benefits from rehabilitating an older building through the increase in value of the building, the 10% investment tax credit, and increases in rents. If a landlord does not rehabilitate a building it is because it is even more profitable to not do so.

D.) Rent Control raises property taxes on one and two family homes because landlords are granted reductions in their taxes through the tax appeal process. Landlords in Newark were actually granted more tax appeals in the two years before rent control was established than in 1980 or 1981. Tax appeals granted for industrial and commercial property have kept pace with those granted to landlords both before and after the rent control law was enacted. The Tax Appeal Boards and Courts have always looked favorably upon businessmen and rent control hasn't made any difference. Owners of money making property have always taken advantage of this. Home owners have always suffered as a result of it.